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## **Press Release on Economic and Monetary Conditions for October 2006**

**In October 2006, the economy** slowed down from the previous month. Private consumption indicators and private investment indicators decelerated as compared to last month. In the same period, exports accelerated while imports grew at a rate similar to that of the previous month, resulting in a continued trade balance surplus. In addition, the services, income and transfers account returned to a surplus in this month.

On the **supply side**, agricultural production in this month contracted, causing farm income growth to decelerate. Manufacturing production decelerated from the previous month while on the services side, tourism continued to expand at a satisfactory rate with the number of tourists increasing by 5.6 per cent from the same period of last year.

**Overall economic stability** remained satisfactory. The current account continued to be in surplus and international reserves remained at a high level. However, inflation increased slightly from the previous month.

Details of the economic conditions **in October 2006** are as follows:

**1. Manufacturing Production. The Manufacturing Production Index (MPI with 76 product categories)** expanded by 5.4 per cent year-on-year, decelerating slightly from the previous month due primarily to the slowdown in domestic demand and the temporary plant closure in the chemical products category for maintenance which continued from last month. On the other hand, production in the electronics category and food category were the main drivers of manufacturing production in this month following strong export growth.

The **capacity utilization rate (with 69 product categories)** in October 2006 registered at 72.6 per cent, decreasing from 73.6 per cent.

**2. Domestic Spending. The Private Consumption Index (PCI)** rose by 1.3 per cent year-on-year, slowing down from the previous month and in line with the drop in motorcycle sales due to floods in several areas. At the same time, import of consumer goods at constant prices declined slightly. Indicators that expanded well in this month were value-added tax at 1995 price, household electricity usage and passenger car sales. The quantity of benzene and gasohol usage also rose because of the decline in retail oil prices. The **Private Investment Index (PII)** (preliminary figure) grew by 1.0 per cent from the same period last year and decelerated month-on-month following commercial car sales, which contracted from a high base due to the introduction of new models at the end of 2005, and the slight decrease in domestic cement sales compared to the same period last year as a result of the floods.

**3. Fiscal Position.** In October 2006, government revenue collection totaled 121.8 billion baht, increasing by 27.3 per cent year-on-year following the acceleration on tax and non-tax revenues. Tax revenue rose by 10.2 per cent, a faster rate compared to last month, in line with the increase in both personal and corporate income tax collection. Tax revenue from the consumption base saw acceleration in every component, especially the excise tax component. This is partly due to the producers' expectation that the authorities would increase the surcharge for tobacco and alcohol production. Furthermore, tariff collection decreased due mainly to the downward adjustment of custom duty rates. Additionally, non-tax revenue collection grew by 376.0 per cent, following income remittances of state enterprises with accounting period following the calendar year. This substantial growth was due to October being the starting month of the new semi-annual income remittance schedule, in line with the corporate income tax payment schedule. The government cash balance registered a deficit of 12.4 billion baht, resulting in a decrease in the treasury reserves to 125.2 billion baht at the end of October.

**4. External Sector. In October 2006, the trade balance** registered a surplus of 0.7 billion US dollars. **Export** value totaled 11.4 billion US dollars, expanding by 20.9 per cent following the continued export growth of the high-tech products. **Import** value was at 10.6 billion US dollars, growing by 8.9 per cent year-on-year following the import of petroleum products, metal and chemical. The **services, income and transfers account** recorded a surplus of 0.1 billion US dollars in line with the increase in tourism revenue. In this month,

reinvested earnings (RE) data since 2001 were included.<sup>1/</sup> In addition, payment on investment returns decreased slightly as compared to the previous month. This month, the **current account** recorded a surplus of 0.8 billion US dollars while the **balance of payments** was in surplus by 0.3 billion US dollars. **International reserves** at end-October 2006 stood at 62.3 billion US dollars, with a net forward position of 5.3 billion US dollar.

**5. Prices. In October 2006, headline inflation** rose slightly to 2.8 per cent year-on-year with respect to the prices in the food category, particularly, the adjustment of fresh vegetables prices upwards as a consequence of the floods in many parts of the country. Nevertheless, prices in the energy category declined following the reduction in electricity (Ft) price by 8.2 per cent. **Core inflation** slowed down slightly to 1.8 per cent, partly due to the prices in the transportation and communication category which decelerated following energy costs.

The **Producer Price Index (PPI)** accelerated from 2.8 per cent to 3.4 per cent due chiefly to the acceleration in the products of agriculture category.

**6. Monetary Conditions. In October 2006, commercial bank deposits** expanded from the same period in 2005 by 8.7 per cent, close to last month's level but starting to slow down compared to earlier periods when banks raised interest rates competitively in order to maintain their deposit bases. After excluding the newly established commercial banks, commercial bank deposits expanded by 6.9 per cent year-on-year. In the same period, **commercial bank claims on the private sector**<sup>2/</sup> rose by 4.7 per cent, also slowing down from September and the earlier periods, partly due to the base effect as the newly established commercial banks had, as of the present, been included in the banking system for one full year. Moreover, the deceleration was also because of the decrease in loans to other financial institutions and the slowdown in loans to the corporate sector. Excluding the effect of the newly established commercial banks and adding back debt write-offs and net transfers to AMCs, commercial bank claims expanded by 5.4 per cent year-on-year.

**Monetary base. At end-October 2006,** the monetary base stood at 800.0 billion baht, expanding by 4.1 per cent from end-October 2005. In addition, **M2, M2a, M3, and broad money**<sup>3/</sup> expanded by 8.6, 7.4, 7.8 and 8.2 per cent year-on-year respectively.

**Money market interest rates. In October 2006** and up until the period of 1-23 November 2006, the **overnight interbank rate** remained stable on average while the average **1-day repurchase rate** increased slightly from last month because of the tightening in liquidity.

**7. Exchange Rate. In October 2006,** the baht averaged at 37.34 baht per US dollar, appreciating from the average of 37.43 Baht per US dollar in September 2006 following continued capital inflows for investment in the stock exchange and government bonds in particular. In addition, there was also pressure from foreign funds selling US dollars in large volumes, causing the baht to appreciate very quickly against the US dollar towards the end of the month when the baht attained 36.60 baht per US dollar, its most appreciated rate in seven years.

**During the period of 1-23 November 2006,** the baht continued its appreciating trend and averaged at 36.61 baht per US dollar.

Bank of Thailand  
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<sup>1/</sup> Additional information in BOT Press release No. 45/2006 dated 27 November 2006

<sup>2/</sup> Commercial bank claims on the private sector is defined as commercial bank credits to the private sector (including holding of private securities).

<sup>3/</sup> Broad money is defined as the monetary aggregate which has a broader coverage than M3, as it includes deposits or deposit substitutes of other depository corporations (ODCs) other than commercial banks, finance companies and Specialized Financial Institutions (SFIs). To compile the broad money data, the BOT follows Monetary and Financial Statistics Manual (MFSM2000) of the International Monetary Fund. Details of definition, guideline and methodology are shown in <http://www.bot.or.th/bothomepage/databank/EconData/EconFinance/download/MS06T.doc>  
From January 2007, the Bank of Thailand will disseminate only the broad money.